ANNUAL REPORT 1976

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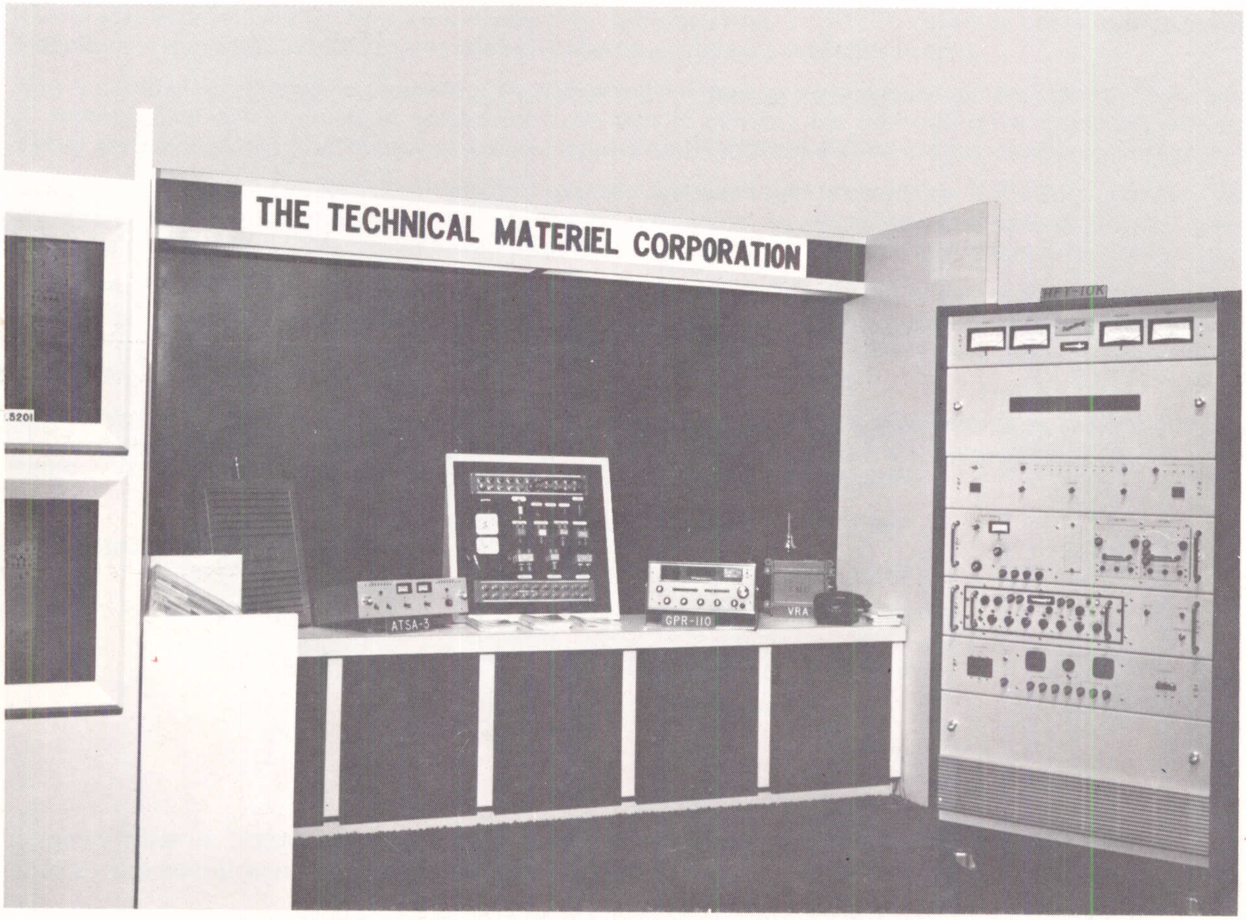

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

THE TECHNICAL MATERIEL CORPORATION
AND SUBSIDIARIES

DIRECTORS

R.H. dePASQUALE
Chairman

N.H. dePASQUALE

G.W. JENNINGS

OFFICERS

RAY H. dePASQUALE
President

NEIL H. dePASQUALE
Executive Vice President & Treasurer

E.J. HOFMANN
Vice President
TELECOM REALTY CORP.
President

RUTH S. TAYLOR
Secretary

Cover: TMC Display at 1976 Armed Forces Communications Show, Washington, D.C.

BUSINESS HIGHLIGHTS...

	FISCAL YEAR	
	1976	**1975**
Net Sales	$2,928,039	$4,234,810
Net Profit (Loss)	(696,316)	76,238
Current Assets	4,007,548	4,478,826
Current Liabilities	2,338,218	2,260,906
Working Capital	1,669,330	2,217,920
Current Ratio	1.7 to 1	2.0 to 1
Property, Plant and Equipment, Net	818,319	1,002,871
Property Held For Sale	621,691	619,211
Stockholders' Equity	2,225,849	2,922,165
Net Profit (Loss) Per Share	(.24)	.03
Book Value Per Share	.79	1.03
Number of Stockholders	5,974	6,092
Shares of Stock Outstanding	2,847,704	2,847,704

The Technical Materiel Corporation hereby declares itself an Equal Opportunity Employer. The Company realizes that all individuals, regardless of race, color, creed, religion, sex or national origin should be afforded the opportunity of seeking employment with the Company and should not be discriminated against during their employment with the Company.

message from the president...

Unprecedented economic conditions, domestic and foreign, contributed in large measure to poor results in fiscal 1976. In order to improve the Corporation's cash position and consolidate management, it was decided to sell the assets of TMC Systems (Arizona), Inc. This resulted in reduced sales for the Corporation although the profit from this discontinued operation is included in the statements. An explanation of this transaction is included in Note 1 of the Notes to the Financial Statements.

In 1976 several significant non-recurring costs had an adverse effect on operations and are reflected in the relatively high percentage of cost of sales.

TMC warrants its equipment against defects in design, workmanship and material. Certain equipment shipped in 1974/1975 did not perform satisfactorily. TMC completely repaired this equipment in the field under the terms of its warranty at no cost to the customer.

New products developed by TMC were released to manufacturing in 1976. The start-up costs associated with initial manufacture of these new products were carried in inventory and costed out when sold.

TMC is continuing a three-year program of consolidating manufacturing and development operations in Mamaroneck. This centralization has resulted in considerable savings in general and administrative expenses. The economies achieved are the direct result of improvements in manufacturing techniques and in streamlining operations.

New product engineering and development expenses are no longer deferred by TMC. Such expenses reflect the company's commitment to its customers. Specifically, 1976 costs are associated with several projects for high-grade commercial transmitters and receivers. Integrated circuit technology is now used in virtually every TMC product.

Overall expenses were successfully reduced in both 1975 and 1976 as a result of aggressive internal supervision and consolidation. In addition, inventories are now current and better support the modern TMC equipment operating in the field. TMC continues to foster development programs in engineering to ensure new products are created to meet changing markets.

As this report is written, the corporation has an order backlog of $789,432, representing an opportunity for profits in the coming year. Every effort will be expended in the new fiscal year to see that we resume profitable operations.

FOR THE BOARD OF DIRECTORS

Ray dePasquale

President

Technical Materiel Corporation common stock has had a very limited market and the price range for the two preceding years has been 1/8 to 7/8.

A copy of the Company's Form 10-K Annual Report to the Securities and Exchange Commission may be obtained by any stockholder without charge on written request to the Secretary of the Company.

ASSETS

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

September 30, 1976 and 1975

ASSETS	1976	1975
CURRENT ASSETS:		
Cash	$ 215,231	$ 218,278
Accounts receivable — $206,799 in 1976 and $436,120 in 1975 from the U.S. and foreign governments (Note 7)	536,640	821,597
Notes receivable, current portion	319,812	23,625
Inventories, at the lower of cost or market (Note 2)	2,864,159	3,339,095
Prepaid expenses	71,706	76,231
Total current assets	4,007,548	4,478,826
PROPERTY, PLANT AND EQUIPMENT, at cost (Note 3):		
Land	197,071	197,071
Buildings and building equipment	1,146,847	1,146,847
Machinery and equipment	1,264,315	1,581,622
Leasehold improvements	—	11,562
	2,608,233	2,937,102
Less accumulated depreciation and amortization	1,789,914	1,934,231
	818,319	1,002,871
OTHER ASSETS:		
Property held for sale or rental	621,691	619,211
Long-term note receivable, less current portion above	70,875	94,500
	692,566	713,711
	$5,518,433	$6,195,408

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED BALANCE SHEET

September 30, 1976 and 1975

LIABILITIES AND STOCKHOLDERS' EQUITY	1976	1975
CURRENT LIABILITIES:		
Notes payable to banks (Note 5)	$ 980,000	$ 650,000
Demand notes payable to officers at 7% interest	830,000	860,000
Accounts payable	339,011	441,025
Accrued income taxes	5,000	5,490
Other accrued taxes and expenses	137,016	225,239
Current installments of mortgages and notes payable	47,191	79,152
Total current liabilities	2,338,218	2,260,906
LONG-TERM DEBT:		
Mortgages and notes payable — 6% to 7½% due 1977-1992 (less current installments, above) (Note 5)	954,366	1,012,337
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)	—	—
STOCKHOLDERS' EQUITY:		
Common stock, par value 12½¢ per share: Authorized — 4,000,000 shares; issued — 2,847,704 shares in 1976 and 1975	355,963	355,963
Capital surplus	6,924,042	6,924,042
Earned surplus (deficit)	(5,054,156)	(4,357,840)
	2,225,849	2,922,165
	$5,518,433	$6,195,408

The accompanying notes to consolidated financial statements are an integral part of this statement.

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LIABILITIES

AND STOCKHOLDERS' EQUITY

WORLD WIDE SUPPLIERS • OF ELECTRONIC COMMUNICATIONS EQUIPMENT

OPERATIONS
AND EARNED SURPLUS (DEFICIT)

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
For the Years Ended September 30, 1976 and 1975

	1976	1975
Net Sales	$ 2,928,039	$ 4,234,810
Cost of sales (Note 2)	2,178,691	2,354,204
Engineering and development expenses (Note 2)	255,190	235,639
Selling, general and administrative expenses (Note 2)	1,062,949	1,393,233
Interest expense	181,317	202,547
Other — net (Note 6)	(22,201)	113,422
	3,655,946	4,299,045
Loss from continuing operations	(727,907)	(64,235)
Income from discontinued operations	31,591	140,473
Net Income/(loss)	(696,316)	76,238
Deficit at beginning of year	(4,357,840)	(4,434,078)
Deficit at end of year	$(5,054,156)	$(4,357,840)
Net income/(loss) per share (Note 8)	$ (.24)	$ .03

The accompanying notes to consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the Years Ended September 30, 1976 and 1975

	1976	1975
SOURCES OF WORKING CAPITAL:		
Reduction of long-term note receivable	$ 23,625	$ 23,625
Retirement of property, plant and equipment net of purchases	86,613	—
	110,238	23,625
APPLICATIONS OF WORKING CAPITAL:		
Operations:		
Net loss (income)	696,316	(76,238)
Depreciation and amortization of property, plant and equipment	(95,459)	(117,084)
	600,857	(193,322)
Reduction of mortgage and notes payable	57,971	77,483
Purchase of property, plant and equipment, net of sales	—	94,689
	658,828	(21,150)
Increase (decrease) in working capital	$(548,590)	$ 44,775
DETAILS OF CHANGES IN WORKING CAPITAL:		
Increase (decrease) in current assets:		
Cash	$ (3,047)	$ 72,919
Accounts receivable	(284,957)	63,681
Notes receivable	296,187	23,625
Inventories	(474,936)	(29,226)
Prepaid expenses	(4,525)	1,594
	(471,278)	132,593
Increase (decrease) in current liabilities:		
Notes payable	300,000	179,463
Accounts payable and accrued liabilities	(190,727)	(97,119)
Current installments of mortgages and notes payable	(31,961)	5,474
	77,312	87,818
Increase (decrease) in working capital	$(548,590)	$ 44,775

The accompanying notes to consolidated financial statements are an integral part of this statement.

CHANGES IN

FINANCIAL POSITION

Management's discussion and analysis of the summary of operations:

A summary of the variances between 1974 and 1975, and between 1975 and 1976 is presented below:

	Increase/(Decrease) 1974/1975	1975/1976
Net Sales	$(1,118,087)	$(1,306,771)
Cost of sales	(1,287,578)	(175,513)
Engineering and development expenses	(72,106)	19,551
Selling, general and administrative expenses	128,654	(330,284)
Interest expense	17,665	(21,230)
Other — net	40,914	(135,623)
	(1,172,451)	(643,099)
Income/(loss) before income taxes	54,364	(663,672)
Provision (credit) for income taxes	(3,356)	—
Net income (loss)	$ 57,720	$ (663,672)

The declines in sales were related primarily to world economic conditions which directly affected the level of TMC export shipments during the years. In addition in 1976 TMC's crystal product subsidiary in Arizona was sold resulting in further consolidation of corporate activities in Mamaroneck. The Company is continuing its endeavors to find new markets for its products worldwide by maintaining both marketing and servicing facilities in the United States, Canada, Switzerland and South America. New incoming business continues at a high level.

In 1975, the costs of sales enjoyed a marked reduction chiefly as a result of centralization of production. For 1976, several significant non-recurring costs had an adverse effect on operations and are reflected in the relatively high percentage of cost of sales:

1) TMC maintains a significant inventory of replacement parts which are used periodically to service customers using TMC equipment in the field. Obsolete parts including hardware and publications were scrapped in 1976 resulting in a more current inventory of parts to cover spares requirements for new TMC products in the field.

2) Obsolete finished goods were salvaged for spare parts resulting in a direct loss of applied engineering, applied general and administrative, direct material, and direct labor costs. Only replacement parts applicable to modern equipment currently in field operation were retained in inventory.

3) TMC warrants its equipment against defects in design, workmanship and material for one year from the date of shipment or installation (by TMC). In 1976, certain equipment shipped in

1974/1975 was found to be defective when installed in the field. TMC completely repaired this equipment in the field under the terms of its warranty without cost to the customer.

4) New products developed by TMC in prior years were released to manufacturing in 1976. The start-up costs associated with the initial manufacture of these new products were carried in inventory and costed out when sold.

TMC is continuing a three-year program of consolidating manufacturing and development operations in Mamaroneck. This centralization has resulted in considerable savings in general and administrative expenses. The economies achieved are the direct result of improvements in manufacturing techniques and in streamlining operations.

New product engineering and development expenses are no longer deferred by TMC. Such expenses reflect the Company's commitment to its customers. Specifically, 1976 costs are associated with several projects for high-grade commercial transmitters and receivers. Integrated circuit technology is now used in virtually every TMC product.

Overall expenses were successfully reduced in both 1975 and 1976 as a result of aggressive internal supervision and consolidation. In addition, inventories are now current and better support the modern TMC equipment operating in the field. TMC continues to foster development programs in engineering to ensure new products are created to meet changing markets.

In 1975, borrowings subject to interest charges increased $179,463; interest rates reached an all-time high during the year ended September 30, 1975. The funds were utilized primarily for the reduction of trade payables and amortization of long-term debt.

The fluctuations in Other expenses resulted from the following:

	1974/1975	**1975/1976**
Non-operating building expense, net	$29,488	$(120,541)
Other items, Net........	11,426	(15,082)
	$40,914	$(135,623)

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NOTES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1976 and 1975

NOTE 1: The consolidated financial statements include the accounts of the Company and all its subsidiaries. Foreign currency items have been translated to appropriate rates of exchange. Intercompany balances and transactions have been eliminated in consolidation.

The net assets shown by the books of the consolidated subsidiaries was less than the amount by which the Company's investment therein is carried on its books by $2,156,593 at September 30, 1976 and by $2,184,392 at September 30, 1975. In consolidation, deficits and undistributed earnings (respectively) of subsidiaries since dates of formation or acquisition have been charged or credited to earned surplus in the amounts of $1,774,902 at September 30, 1976 and $1,802,701 at September 30, 1975. The excess of cost over the book value of net assets of a subsidiary acquired in prior years in the amount of $381,691 at September 30, 1976 and 1975 (net of depreciation) has been charged to property, plant and equipment.

In August, 1976, the Company sold the net assets of its subsidiary, TMC Systems (Arizona), Inc. The subsidiary's gross sales of $759,000 and the related cost and expense items have been deleted as line items and the net income for the period, and the corporation's gain on sale are reflected below net income from operations, as net income from discontinued operations. Prior year income statements were restated to maintain comparability of continuing operations.

NOTE 2: Reduced U.S. government business and other market conditions have resulted in limited usage of inventory stocks which are held as replacement parts under the requirements of government contracts completed in prior years. At September 30, 1976 and September 30, 1975, $2,200,000 of the Company's inventories, a significant portion of which is held against these requirements, represented items which were purchased or manufactured in prior fiscal years. In the opinion of the management, inventory quantities are not excessive in relation to the Company's requirements for anticipated future production and spare parts shipments, and with respect to the slow-moving inventories, adequate provisions have been made.

Cost of inventories, as summarized below, is determined principally on the basis of the average cost method:

	1976	1975
Finished goods	$ 561,020	$ 668,610
Work in process	826,219	1,095,525
Raw materials	1,476,920	1,574,960
	$2,864,159	$3,339,095

NOTE 3: Depreciation has been provided on the basis of the estimated useful lives of the depreciable assets using generally the straight-line method and rates of 2½% for buildings and building equipment, and 10%-33⅓% for machinery and equip-

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

NOTES

ment. Leasehold improvements are amortized over the terms of the respective leases. The lease for the Virginia plant expires in 1977.

Maintenance, repairs and minor renewals of fixed assets are charged to expense; major renewals and betterments are capitalized. Upon sale or retirement of property, plant and equipment, cost and accumulated depreciation are removed from the accounts and the profit or loss is charged to income.

NOTE 4: The Company's Employees' Savings Trust Plan was terminated as of September 30, 1975. The accumulated contributions in the plan were distributed to the participants in the plan during the year ended September 30, 1976.

NOTE 5: Mortgage and note payments due during the four years subsequent to the 1977 fiscal year aggregate $48,782 for 1978, $52,104 for 1979 and $55,651 for 1980 and $57,721 for 1981.

The notes payable to banks are secured by collateral pledged by the Corporation president, a majority stockholder.

NOTE 6: Minimum rental commitments under existing leases aggregate $112,000 for 1977.

At September 30, 1974, land and buildings aggregating $945,912 net of accumulated depreciation of $317,559 were reclassified to "Property held for sale or rental".

NOTE 7: No allowance for doubtful accounts has been established because historically, accounts which become uncollectible are relatively immaterial and are charged directly to expense.

Approximately 11 per cent of the Company's 1976 business is subject to renegotiation. The Company believes 1976 will be settled without any refund. All years through 1975 have been settled.

The Company is contingently liable for $31,700 on open letters of credit, and on a mortgage relating to a sale of the Company's former Nyack plant, which the purchaser bought subject to the mortgage, on which the Company remains liable.

NOTE 8: Computations of per share amounts are based on the weighted average number of shares of common stock outstanding during each period.

AUDITORS' REPORT

Marshall Granger & Company
Certified Public Accountants

The Board of Directors and Stockholders
The Technical Materiel Corporation
Mamaroneck, New York

We have examined the accompanying consolidated balance sheet of THE TECHNICAL MATERIEL CORPORATION and subsidiaries at September 30, 1976 and 1975 and the related consolidated statements of income and deficit and of changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned financial statements present fairly the consolidated financial position of The Technical Materiel Corporation and subsidiaries at September 30, 1976 and 1975, the consolidated results of their operations and the consolidated changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Marshall Granger & Company

MARSHALL GRANGER & COMPANY
Mamaroneck, New York
December 9, 1976

WORLD WIDE SUPPLIERS OF ELECTRONIC COMMUNICATIONS EQUIPMENT

Radio Transmitters, Radio Receivers and Antennas for UHF, VHF, HF, MF, LF, VLF and ELF

Antenna accessories

Mobile installations

Single and independent sideband exciters and terminals

Frequency shift terminal and transmitting equipment

Plugs and connectors

Integrated circuits

Crystal filters

Compensated oscillators

Real time measuring equipment

Synthesizers

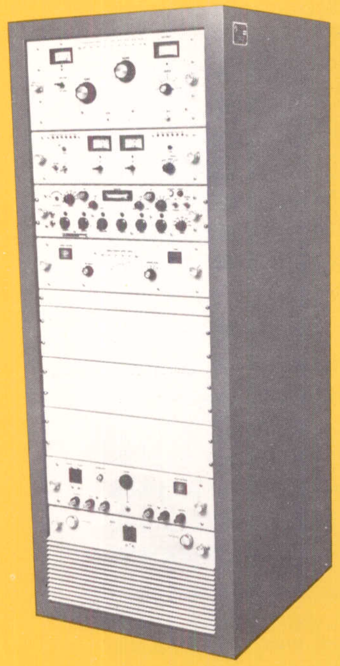
Radio frequency transformers

Transmitter test equipment

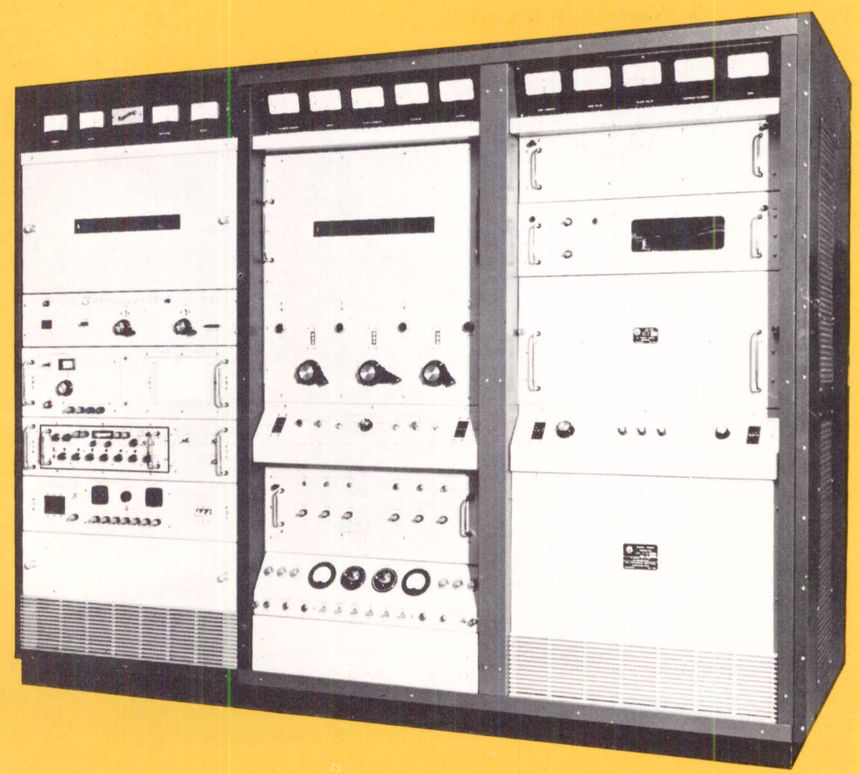
Field engineering

Training for radio operators

Aeronautical installation and service



1KW Transmitter
These type transmitters are at United Nations locations throughout the world.



40KW Transmitter
Installed for the United Nations in Nairobi, Africa

THE TECHNICAL MATERIEL CORPORATION AND SUBSIDIARIES

MAIN OFFICES: Fenimore Road, Mamaroneck, New York 10543
TMC Systems (Arizona), Inc., Tempe, Arizona 85281
The TMC Systems and Power Corp., Springfield, Virginia 22151
TMC (Canada), Ltd., Ottawa, Ontario, Canada
TMC Systems AG, Luzern, Switzerland
Telecom Realty Corp., Mamaroneck, New York 10543